

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05  
EPG-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00  
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04  
SIL-01 PA-02 PRS-01 H-02 L-03 (ISO) W  
-----051508 230450Z /14

R 221400Z JUN 77

FM AMEMBASSY ROME

TO SECSTATE WASHDC 5452

TREASURY DEPT WASHDC

INFO AMEMBASSY BRUSSELS

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY PARIS

UNCLAS ROME 10279

USEC;USOECD;PASS FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: PRIME RATE REDUCED TO 18 PERCENT IN WAGE OF RECENT

LOWERING OF DISCOUNT RATE

REF : A. ROME 9744

B. ROME 8319

C. 76 ROME 9554

1. LOWERING OF PRIME RATE FROM RECORD 19.5 PERCENT TO 18.0 PERCENT FOR SECURED LOANS WAS AGREED UPON BY EXECUTIVE COMMITTEE OF THE ITALIAN BANKING ASSOCIATION JUNE 21. THE COMMITTEE, WHICH SINCE MAY 1, 1975 DETERMINES THE PRIME RATE FOR MEMBER COMMERCIAL BANKS, ALSO ANNOUNCED A SEPARATE RATE OF 18.5 PERCENT FOR UNSECURED LOANS. (THIS IS THE FIRST TIME A SEPARATE RATE HAS BEEN OFFICIALLY SET BY THE ASSOCIATION, EVEN THOUGH BANKS HAVE HABITUALLY CHARGED A SOMEWHAT HIGHER  
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RATE FOR UNSECURED LOANS.) THE ACTION BY THE COMMITTEE MARKS THE FIRST OFFICIAL CHANGE IN LOAN RATES TO FAVORED CLIENTS SINCE JUNE 10, 1976 WHEN THE RATE WAS INCREASED FROM 18 PERCENT TO 19.5 PERCENT. THIS ACTION FOLLOWS CLOSELY ON THE HEELS OF THE REDUCTION IN CENTRAL BANK DISCOUNT RATES TO COMMERCIAL BANKS FROM 15 TO 13 PERCENT EFFECTIVE JUNE 15.

2. THE BANKING ASSOCIATION EXECUTIVE COMMITTEE ALSO "RECOMMENDED" THAT MEMBER BANKS LOWER INTEREST RATES PAID TO DEPOSITORS" IN LINE WITH" THE LOWERING OF THE PRIME RATE. WHILE THE RATES PAID TO DEPOSITORS HAVE NOT BEEN OFFICIALLY CHANGED FROM THE 8.25 TO 10.25 PERCENT RANGE ESTABLISHED IN APRIL 1976, BANKS HAVE ACTUALLY BEEN PAYING UP TO 15-16 PERCENT RECENTLY TO ATTRACT FRESH FUNDS. THIS WAS OPENLY ACKNOWLEDGED BY THE RECENT AGREEMENT OF 14 OF THE LARGEST BANKS TO LOWER RATES ON DEPOSITS FROM 16.50 TO 15.75 PERCENT (REF B). PRESIDENT OF THE BANKING ASSOCIATION GIUSEPPE ARCAINI COMMENTED TO THE PRESS AFTER THE MEETING THAT "IT MADE NO SENSE OFFICIALLY TO LOWER THE RATE PAID TO DEPOSITORS, BUT RATHER TO INVITE THE COMMERCIAL BANKS TO LOWER THEIR ACTUAL RATES IN LINE WITH THE REDUCTION IN THE PRIME RATE."

3. /COMMENT/. WHILE NOT AS MUCH AS HOPED FOR IN SOME SECTORS (PRESIDENT OF THE CONFEDERATION OF LARGE INDUSTRIES GUIDO CARLI RECENTLY CALLED FOR A THREE-POINT DROP AS BEING ESSENTIAL FOR THE HEALTH OF INDUSTRY), LOWERING OF PRIME RATE HAS BEEN EXPECTED AND REFLECTS THE RECENT SIGNS OF IMPROVEMENT IN THE RATE OF INFLATION AND THE BALANCE OF PAYMENTS, AS WELL AS THE RELATIVELY HIGH LEVEL OF BANK LIQUIDITY WHICH HAS BUILT UP RECENTLY. THE CEILING ON LIRA CREDIT EXPANSION WILL OF COURSE PREVENT ANY LARGE ACTUAL INCREASE IN LENDING, BUT THE CHEAPER INTEREST RATES WILL GIVE SOME BOOM TO INDUSTRY WHICH HAS SHOWED SIGNS RECENTLY OF SLOWING MORE RAPIDLY THAN EXPECTED. GARDNER  
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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
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